



GOVERNOR ARNOLD SCHWARZENEGGER

February 27, 2007

The Honorable Michael O. Leavitt  
Secretary of Health and Human Services  
U.S. Department of Health and Human Services  
200 Independence Avenue, SW  
Washington, DC 20201

Dear Mr. Secretary,

Thank you for taking the time to meet with me and discuss several health care issues which are critically important to Californians and to all Americans.

As we discussed, my top health care priority this year is enacting a universal health care coverage initiative in California. My comprehensive, shared-responsibility reforms will extend coverage to all Californians, promote the core principles of wellness and prevention and dramatically lower costs and improve affordability. We all have a stake in this issue and under my plan I am asking all parties to share responsibility for fixing a broken system, including the individual, insurers, business, health care providers and all levels of government.

My reforms include a strong partnership with the federal government. I am pleased that senior staff from the Centers for Medicare and Medicaid Service (CMS) agree that there are federal matching dollars available under current federal law, as well as authority for that funding (except for the \$250 million of discretionary federal funding proposed under a new 1115 waiver). Federal authorities did note that the entire States Children's Health Insurance Program (SCHIP) program is up for reauthorization which I discuss below. In addition, my health care reform proposal is consistent with your Four Cornerstones of Value-Driven Health Care Initiative. As we discussed, I share your commitment to promoting a more cost-effective, efficient health care system and intend to sign an Executive Order adopting your four principles for California. Working together, we can promote market-based health care reform strategies that improve and inform consumer decision-making and drive the health care market to perform at peak levels.

Although I recognize the need for the federal government to create sustainable growth in the Medicare and Medicaid programs, I cannot support the President's \$100 billion in cuts for these programs. The Medicaid cuts are too heavily targeted toward federal cost containment at the expense of the states, and there is not enough reform in the health care delivery system. Although I do not believe the proposed cuts will directly impact California's ability to draw down the necessary federal matching funds for my health care reform proposal, the significant reductions in federal

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reimbursements to health care providers will work against my efforts to equalize health care provider reimbursement rates in California. Directly related to these cuts is the draft CMS government owned health care provider rule that was just released. I am pleased that senior CMS staff has informed my senior health advisors that this new rule will not impact California's hospital financing waiver and that payments to our public hospitals under the current waiver are not in jeopardy. However, until we have universal health coverage in this country, government-owned health care providers - the providers of last resort when it comes to health care for tens of millions of Americans - will continue to struggle financially. This stems from losses they incur in serving the uninsured, underinsured as well as the low reimbursement they receive under Medicaid. Therefore, I strongly urge you to reconsider the draft rule.

I appreciate CMS staff's discussions and efforts to date to renew California's family planning Medicaid waiver (F-PACT). The F-PACT program has contributed to California's nation-leading success in preventing unintended pregnancies and has saved the federal government and the state hundreds of millions of dollars annually. As you may be aware, federal-state efforts to renew the F-PACT waiver have been underway for over 30 months. While many issues have been resolved, there are two changes being pressed by CMS that, if implemented, will compromise access to essential services and increase program costs. The proposed changes will require an eligibility determination process that will cost the state and federal government up to \$577 a year per application to determine eligibility for a program benefit that averages \$261 a year. The CMS proposal will cost the federal government up to \$392 million a year for new increased administrative costs for a program that currently costs \$303.5 million a year, and, by compromising access to essential services, will endanger large portions of the \$748 million a year in savings the federal government receives from the program. I appreciate your consideration of our proposal to extend this waiver through the end of the calendar year, while the Legislature and I work through our health care reform

I would also like to ask for your support of a request made by Los Angeles County (County) to extend the Medicare Provider Agreement for Martin Luther King Hospital through August 15, 2007. The County has made significant progress in restructuring this hospital and addressing quality of care issues and is meeting the expectations of the federal and state governments in its reform efforts. As we knew at the time the restructuring plan was adopted by the County last fall, the County would need additional time after March 31 to complete its efforts. Ending the hospital's certification on March 31 will penalize the hospital when it is showing major progress. It could also eliminate the ability of Charles R. Drew University of Medicine and Science to be able to train residents for some of our most underserved populations.

Finally, I appreciated our discussion on the reauthorization of the SCHIP program. As you know, we are very proud of our Healthy Families Program in California and I want to continue its success in expanding coverage of essential health services for California children. Between private sector health insurance, SCHIP and Medicaid, we provide health care for more than 90 percent of the children who live in California. I invested significant state resources in new outreach efforts to

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ensure that all children that are currently eligible are enrolled in this important program. Obviously, this requires that sufficient state and federal resources be available to pay for the coverage once we enroll children. In California alone, we estimate that we will need up to \$800 million annually in new federal funding (above our current annual base of \$800 million) just to enroll children eligible under current law. I am concerned that the President's budget will fall short of our needs in covering the currently eligible population of children. I look forward to working with the President, other governors and the entire Congress as you move forward in this critical program reauthorization.

With skyrocketing costs and an unacceptable number of uninsured, failure on these issues is no longer an option. Despite the obstacles, we can and must come together to address this problem, and I look forward to working with you and the President to make real progress on these issues. Thank you again for meeting with me. Together, I know we can build a brighter and healthier future for all Americans.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold Schwarzenegger", written over a horizontal line.

Arnold Schwarzenegger